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Missouri State Auditor

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## ADMINISTRATION

# SAM II Vendor File and Related Processes

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## **Progress Has Been Made, but Additional Reviews Needed to Ensure Accurate Vendor File and Payment Reporting**

This audit reviewed the SAM II vendor file and related processes. Auditors found Office of Administration (OA) officials have been doing an effective job overall of managing vendor records and Form 1099 reporting requirements. However, additional opportunities exist to enhance management of vendor records and reporting requirements.

Additional work needed to identify duplicate and unnecessary SAM II vendor records

We found progress has been made eliminating duplicate and unnecessary vendor records. The number of vendor records has decreased 54 percent from 2003 to 2008. However, potential duplicate vendor records still exist in the vendor file, increasing the risk of payments being made to incorrect vendors. (See page 7)

Form 1099 reportable expenditure types should be periodically reviewed

OA Accounting officials did not create Form 1099 returns for all calendar year 2006 reportable payments. An Accounting official said the criteria for Form 1099 reportable expenditure types has not been reviewed since July 2005. (See page 8)

Inactivity time frames for deleting vendors should be reviewed

Repeat work has been created for state employees, including OA Accounting staff, when vendor records need to be reissued because the records have been purged from SAM II. State employees must obtain a new vendor input form, verify the vendor's TIN, and process the vendor record in SAM II when a deleted vendor needs to be added back to SAM II. A review of vendor records deleted during the period January through August 2007 and then reissued within 90 days of the record's deletion date indicated 74 percent would not have been deleted if the purge process had been set at 24 months of inactivity instead of the current time frame of 14 months. (See page 8)

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## Abbreviations

IRS	Internal Revenue Service
MAP	Missouri Accountability Portal
OA	Office of Administration
SAM II	Statewide Advantage for Missouri
SAO	State Auditor's Office
TIN	Tax identification number



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

Honorable Matt Blunt, Governor  
and  
Larry Schepker, Commissioner  
Office of Administration  
Jefferson City, MO

The Office of Administration (OA) is responsible for maintaining the Statewide Advantage for Missouri (SAM II) accounting system, including the comprehensive vendor file. OA is also responsible for compiling and submitting Form 1099 returns to the Internal Revenue Service using information maintained in SAM II. OA has made SAM II payment information available on the Internet through the Missouri Accountability Portal (MAP) and the vendor payment online system. Our audit objectives included determining whether officials have established adequate (1) controls over the addition, change, and deletion of vendor information recorded in the vendor file, (2) procedures to ensure the accuracy of tax identification numbers and amounts reported by the state on Form 1099 returns and (3) controls to ensure the integrity of data and information available to the public on the MAP and to vendors on the vendor payment online system.

We found OA officials have been doing an overall effective job identifying duplicate and unnecessary records in the SAM II vendor file. However, improvements in vendor file maintenance can be made to reduce the risk of payments being made to incorrect vendors. We found vendors listed with the same address having multiple vendor numbers and vendors with the same name but different vendor numbers. We found OA has not reviewed the criteria for Form 1099 reportable expenditure types since July 2005. As a result, payments to corporations for legal services had not been reported on Form 1099 returns for calendar year 2006, as required by law. We also found additional work could be reduced by increasing the period of vendor inactivity before purging records from the vendor file.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis. This report was prepared under the direction of John Blattel. Key contributors to this report included Jeff Thelen, Lori Melton, and Jeff Roberts.

A handwritten signature in cursive script that reads "Susan Montee".

Susan Montee, CPA  
State Auditor

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# Introduction

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The Statewide Advantage for Missouri (SAM II) is the state's integrated financial management, human resource and payroll system providing accounting, budgeting, procurement, inventory and human resources management capabilities for state departments and agencies. There is one master vendor file used for SAM II. Vendor records are added to the file using one of two processes:

- Through the on-line bidding vendor registration system. Vendors may sign up on the state website to bid on state contracts. This process creates a vendor record in the vendor file. Office of Administration (OA) Division of Accounting (Accounting) staff review new vendor records to ensure the records are appropriate and to verify the provided tax identification number<sup>1</sup> (TIN) with the Internal Revenue Service (IRS).
- Through a signed vendor input form sent to OA Accounting by agency personnel. OA Accounting staff reviews information on the form to ensure the vendor has not already been set up in SAM II, verifies the TIN with the IRS, and adds the vendor to SAM II.

A vendor may have multiple locations referred to as alternate addresses and may require more than one SAM II vendor number. Records for vendors having alternate addresses have the same vendor number as the original vendor, except for the last two digits, which are the alternate address indicators. These vendors are related vendors and must all have the same TIN.

Records for inactive vendors are automatically deleted from SAM II in a monthly purge process. To be deleted, a vendor record must generally meet two requirements including (1) there has not been any activity in SAM II within 14 months and (2) there are not any open items such as bids or purchase orders in SAM II. OA Accounting staff may also add a code to the vendor record to override the 14 months of inactivity requirement. Vendor records having this code will be purged at the next monthly cycle, as long as there are no open items in SAM II.

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<sup>1</sup> The TIN is the vendor's Social Security Number or Federal Employer Identification Number.

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## Form 1099 Reporting

OA Accounting is responsible for submitting Form 1099 returns<sup>2</sup> to the IRS for payments processed in SAM II. OA Accounting also processes Form 1099 returns for two types of payments not processed in SAM II: imputed payments made to Lottery retailers and United States Department of Agriculture disaster relief payments made through the state Department of Agriculture. Other reportable business transactions not recorded in SAM II are reported by the applicable state agencies.

Not all state payments are required to be reported on Form 1099 returns. OA Accounting officials determine the expenditure types the state reports. In general, a Form 1099 return is created for listed 1099-reportable expenditure types if the vendor is not tax-exempt and is not a corporation. Data fields are coded in the vendor file indicating if the vendor is tax-exempt or is a corporation. According to the IRS, a corporation should receive a Form 1099 return for certain reportable payments, such as medical payments. In these circumstances, OA Accounting must establish special processing.

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## Identification of Potential Duplicate Payments

Potential duplicate payments are identified through two edits<sup>3</sup> in SAM II. When a transaction is entered, the SAM II system applies edits to identify if a vendor invoice number has been used more than once for the same vendor or has been used for related vendors. If one of these situations occurs, a message displays indicating a possible duplicate transaction. Both edits require special approval from an authorized SAM II user to override.

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## Missouri Accountability Portal

The state launched the Missouri Accountability Portal (MAP) in July 2007. This website provides data on state expenditures made through SAM II. The MAP allows viewers to search by agency, payment category, vendor name, or contract (name or number) and to specify the fiscal year of the payments. In October 2007, information on tax credits was made available. In January 2008, state employee payroll information was added to the website. Payroll information is available by agency, position title, and employee name. MAP information is updated at the close of each business day.

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<sup>2</sup> According to the IRS website, a Form 1099 return is an information return businesses are required by law to file to report certain business transactions to the IRS. Examples of business transactions that must be reported are payments for services performed for a trade or business by people not treated as employees, proceeds paid to attorneys and prizes or awards that are not for services, such as winnings on TV or radio shows.

<sup>3</sup> An edit, also known as a data validity check, is program code that tests the input for correct and reasonable conditions, such as account numbers falling within a range, numeric data being all digits, dates having a valid month, day and year, etc.

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## Vendor Payment Online System

OA officials provide a secure website for use by vendors to identify payments and the detail making up those payments. Once logged on, users can see address information for their related vendor numbers, payments to these vendors, and detail related to these payments. Users can only view SAM II information related to their vendor numbers; they cannot view information for other vendors.

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## Scope and Methodology

To determine whether officials have established adequate controls over the addition, change, and deletion of vendor information recorded in the SAM II vendor file, we conducted interviews with appropriate staff; requested and reviewed available policies and procedures; and performed testing.

We obtained the vendor file as of August 31, 2007, from SAM II. This file contained records of all vendors active in SAM II as of this date. The records include the name, address, TIN, tax-exempt status, incorporated status, and total current and prior calendar and fiscal year payments. The file included 141,852 vendor numbers. To ensure reliability and validity, we reconciled the total amounts reported paid to vendors in fiscal year 2007 to a detailed expenditure file. We reviewed the vendor file for invalid state abbreviations, invalid zip codes, vendors with no activity, vendors with no address or city, and vendors at the same address. Based on our analysis, we found no significant issues with invalid data in the fields tested. We also reviewed the file for vendors having multiple vendor numbers but listing the same address and vendors with the same name but different vendor numbers. We provided an OA Accounting official with a list of all vendors identified with these potential problems. We also obtained a file containing vendor history records as of September 10, 2007, from SAM II. We reviewed vendor records that had been deleted from the vendor file and subsequently reissued.

We obtained the employment records for all state employees for fiscal years 2001 through 2007 from SAM II for human resources. We did not perform specific procedures to ensure reliability because the risk of unreliable results was considered immaterial. We compared state employee records to vendors coded as state employees in the vendor file to determine if these vendors were state employees. Based on our analysis, we found no significant issues with state employee vendor records.

We obtained a file from SAM II of user accounts having access to SAM II as of October 30, 2007. We did not perform specific procedures to ensure reliability because the risk of unreliable results was considered immaterial. We reviewed the access of individuals with authority to add, delete or change vendor records to determine if these users have been restricted from adding and approving expenditure transactions. Based on our analysis, we

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found no significant segregation of duty issues with the SAM II user accounts reviewed.

To determine whether officials have established adequate procedures to ensure the accuracy of TINs provided by vendors and the amounts reported by the state on Form 1099 returns, we conducted interviews with appropriate staff, reviewed IRS instructions for Form 1099 reporting, and performed testing.

We obtained the Form 1099 return files for calendar year 2006 from an OA Accounting official. These files contained the Form 1099 return records submitted to the IRS by OA. A total of over \$957 million was reported by OA on Form 1099 returns for payments made in calendar year 2006. We compared the Form 1099 return amounts to SAM II expenditure detail. We compared the vendors in the Form 1099 files to information from the vendor file. We discussed problems identified with an OA Accounting official.

We obtained the detailed expenditure data for fiscal years 2005 through 2007 from SAM II. We did not perform specific procedures to ensure reliability because the risk of unreliable results was considered immaterial. We matched this data to the SAM II vendor file and the Form 1099 files as necessary.

To determine whether officials have established adequate controls to ensure the integrity of data and information available to the public on the MAP and to vendors on the vendor payment online system, we conducted interviews with appropriate staff and performed testing. Based on our analyses, we found controls have been in place to ensure the integrity of data and information available on the MAP and the vendor payment online system.

We limited our review to the specific matters described above and based it on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.



# Progress Has Been Made, but Additional Reviews Needed to Ensure Accurate Vendor File and Payment Reporting

OA officials have been doing an overall effective job managing vendor records and Form 1099 reporting requirements. However, duplicate and unnecessary vendor records still exist, increasing the risk of payments being made to wrong vendors. In addition, Form 1099 returns were not created for all 1099-reportable payments. These situations occurred because OA officials have not (1) been able to dedicate staff time to review vendor file records and (2) established a process to periodically review the criteria for Form 1099 reportable expenditure types. In addition, repeat work has been created for OA Accounting staff when vendor records need to be reissued because the records have been purged from SAM II.

## Additional Work Needed to Identify Duplicate and Unnecessary SAM II Vendor Records

SAM II users relying on information in the vendor file have an increased risk of making a payment or processing information using the wrong vendor number. Although we did not find significant errors resulting from the use of a wrong vendor number, good business practices ensure processes are efficient and do not create extra, unnecessary work. Ensuring the vendor file contains accurate vendor information limits the work necessary to make payments or to process information for vendors.

OA Accounting staff review vendor records for potential problems, such as duplicate records, as time is available, according to an OA Accounting official. However, this official added there has not been sufficient time or personnel available to dedicate to this task. We found progress has been made eliminating duplicate and unnecessary vendor records. The number of vendor records has decreased 54 percent from 2003 to 2008. Table 2.1 shows the number of vendors at select dates from 2003 through 2008.

**Table 2.1: Count of Vendors in the SAM II Vendor File**

Date	Number of Vendors
January 8, 2008	133,665
January 5, 2007	156,864
January 6, 2006	156,236
January 27, 2005	197,112
January 12, 2004	198,734
January 28, 2003	287,706

Source: SAO analysis of historical SAM II vendor files

We reviewed vendor records in SAM II and found related vendors having the same address. We also found vendors that had the same name but different TINs. We tested 25 sets of related vendors and found 9 sets (36 percent) having at least one vendor record that was not needed. We discussed these vendors with OA Accounting officials and they agreed these records are not necessary and should be deleted. We also tested 25 sets of vendors with the same name and found at least 7 sets (28 percent) with at least one duplicate vendor record. We discussed these vendors with OA

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Accounting officials and they agreed these records are duplicates and should be deleted. Both of these problems indicate the SAM II vendor file contains potentially duplicate and unnecessary vendor records.

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### **Form 1099 Reportable Expenditure Types Should Be Periodically Reviewed**

OA Accounting officials did not create Form 1099 returns for all calendar year 2006 reportable payments. Approximately \$2.7 million was paid for legal services to 131 incorporated vendors in calendar year 2006 for which a Form 1099 return was not created. Federal tax law exempts most payments to corporations from Form 1099 reporting. However, this exemption does not apply to payments for legal services, according to the IRS.

According to an OA Accounting official, the legal services payment issue has been added to the Form 1099 reporting process for calendar year 2007. An Accounting official said the criteria for Form 1099 reportable expenditure types has not been reviewed since July 2005. This official said the omission of the types of payments identified above are unintentional errors that had not been identified during the last review.

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### **Inactivity Time Frames for Deleting Vendors Should Be Reviewed**

Our analysis of vendor history records found that during the period January through August 2007, 676 SAM II vendor records have been deleted and then reissued within 90 days of the record's deletion date. State employees must obtain a new vendor input form, verify the vendor's TIN, and process the vendor record in SAM II when a deleted vendor needs to be added back to SAM II. An OA Accounting official said an analysis has not been performed to confirm whether 14 months of inactivity is an appropriate amount of time before deleting a vendor record. This official said the purge process is set at 14 months of inactivity to ensure at least one year of information is always available in SAM II. Since adding vendor records back to SAM II requires processing time for state employees, including OA staff, we reviewed the length of time the 676 vendors had been inactive prior to the deletion date. We compared the date of the last vendor payment prior to the deletion to the date of the deletion. Table 2.2 shows the count of vendors for the number of months of inactivity.

**Table 2.2: Vendors Deleted and Reissued Within 90 Days**

<b>Number of Months Inactive<sup>1</sup></b>	<b>Count of Vendors</b>	<b>Cumulative Count</b>	<b>Percent of Total</b>
14 and under	3	3	0
15	4	7	1
16	175	182	27
17	107	289	43
18	51	340	50
19	34	374	55
20	41	415	61
21	58	473	70
22	16	489	72
23	4	493	73
24	4	497	74
Over 24	15	512	76
No payments <sup>2</sup>	164	676	100
<b>Total</b>	<b>676</b>	<b>676</b>	<b>100</b>

<sup>1</sup> Represents the number of months from the deletion of the vendor record to the last payment prior to the deletion.

<sup>2</sup> There were no payments to the vendor number in fiscal years 2007, 2006 or 2005.

Source: SAO analysis of SAM II vendor file history records and expenditure records

Results of the inactivity review indicate 497 (74 percent) of the vendor records reissued within 90 days of deletion would not have been deleted if the purge process had been set at 24 months of inactivity instead of the current time frame of 14 months.

## Conclusions

OA Accounting officials and staff have made progress reducing duplicate and unnecessary SAM II vendor records. The number of vendors in the vendor file has decreased 54 percent from 2003 to 2008. However, additional opportunities exist to enhance management of vendor records and reporting requirements. Potential duplicate vendor records still exist in the vendor file, increasing the risk of payments being made to incorrect vendors. OA Accounting officials did not periodically review the Form 1099 reportable expenditure types to ensure Form 1099 returns are created for all reportable payments. Vendor records may be purged from SAM II after too short of an inactivity time frame. Extending this time frame could reduce the number of vendor records that need to be reissued after the records have been purged.

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## Recommendations

We recommend the Commissioner of the Office of Administration:

- 2.1 Continue to direct staff to verify the accuracy of and eliminate duplicate and unnecessary vendor records in the vendor file and dedicate staff, when available, to this process.
- 2.2 Continue to periodically review the Form 1099 reportable expenditure types to ensure accuracy and compliance with IRS regulations.
- 2.3 Review the vendor purge process inactivity time frame for reasonableness and modify the inactivity timeframe as necessary to reduce the time needed for employees to reissue vendor records.

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## Agency Comments

- 2.1 *We agree. Duties have been shifted among OA-Accounting staff to dedicate 1 additional FTE to vendor file duties.*
- 2.2 *We agree. We will continue to monitor the accuracy of the Form 1099s and compliance with IRS regulations with annual reviews conducted by OA-Accounting staff.*
- 2.3 *We agree. The January 2008 purge criteria was changed from 14 months to 22 months.*